

REBUTTAL TESTIMONY
OF
IRIS N. GRIFFIN
ON BEHALF OF
DOMINION ENERGY SOUTH CAROLINA, INC.
DOCKET NO. 2020-125-E

1 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND**
2 **POSITION.**

3 A. My name is Iris N. Griffin, and I am Vice President of Financial
4 Management and Integration at Dominion Energy South Carolina (“DESC”
5 or the “Company”). My business address is 400 Otarre Parkway, Cayce,
6 South Carolina.

7 **Q. ARE YOU THE SAME IRIS GRIFFIN WHO PREVIOUSLY**
8 **SUBMITTED DIRECT TESTIMONY IN THIS PROCEEDING?**

9 A. I am.

10 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

11 A. In my testimony I will respond to the following points found in the
12 direct testimony of the South Carolina Office of Regulatory Staff (“ORS”)
13 and other Interveners:

- 14 • The recommendation of ORS witness Lane Kollen and other

1 witnesses that the Commission not allow full recovery of the
2 Company's actual cost of long-term debt; and

- 3 • The recommendation of the Department of Defense's and All Other
4 Federal Executive Agencies' ("DOD-FEA") witness Mark Garrett
5 that the Commission should not allow a return on Construction Work
6 in Progress ("CWIP") in rates.

7 **LONG-TERM DEBT IN THE BASE REVENUE REQUIREMENT**

8 **Q. PLEASE RESPOND TO ORS WITNESS KOLLEN'S**
9 **RECOMMENDATION THAT THE COMMISSION DENY THE**
10 **COMPANY THE RIGHT TO RECOVER ITS ACTUAL COST OF ITS**
11 **LONG-TERM DEBT.**

12 A. As part of the merger, Dominion Energy, Inc. committed to providing
13 equity financing, as needed, to DESC with the intent of maintaining DESC's
14 capital structure and credit metrics at a level that is supportive of strong
15 investment-grade credit ratings for DESC. In the merger approval order,
16 Order No. 2018-804(A), the merger commitment specified that the equity
17 percentage should be within the range of 50% to 55%.

18 **Q. HOW DID DESC IMPLEMENT THIS MERGER CONDITION?**

19 A. When the merger closed on January 1, 2019, DESC's equity
20 percentage was 45.11%. To meet the merger conditions, Dominion Energy,
21 Inc. made \$825 million in equity capital available to DESC to increase the

1 equity portion of the balance sheet and provided additional cash through
2 short-term borrowing mechanisms sufficient to redeem \$1.7 billion in debt.
3 This combination of actions resulted in an equity ratio of 53.76% at the close
4 of the third quarter of 2019. Additionally, all rating agencies recognized
5 these credit supportive actions and have upgraded ratings of DESC as a
6 borrower, which helps the Company reduce long-term borrowing costs to
7 fund capital expenditures required for clean, safe and reliable service to
8 customers. For example, the difference between the average cost of debt for
9 investment grade issuers (BBB) and non-investment grade issuers (BB)
10 bonds is 150 basis points as of November 2020. Applying this difference to
11 \$400 million of debt financed (roughly equal to DESC's annual financing
12 needs) creates roughly \$180 million in additional costs for customers over
13 the 30-year life of that debt had the Company's credit metrics not been
14 improved by the debt/equity rebalancing required in the merger approval
15 order.

16 **Q. PLEASE EXPLAIN THE STRUCTURE OF THE TENDER OFFERS**
17 **MADE.**

18 A. Two tender offers were made to redeem a total of \$1.7 billion of
19 bonds. Both tenders were funded by cash provided by Dominion Energy, Inc.
20 through equity investments or short-term borrowing supplemented by cash
21 on hand at DESC.

1 The bonds would have to be tendered with a premium sufficient to
2 encourage bond holders to voluntarily sell the bonds back to the
3 Company. Since the transaction would ultimately be driven by market
4 dynamics, the Company worked with its advisors to maximize its repurchase
5 power by identifying the bonds that would have the most success in a
6 repurchase exercise. This generally resulted in bonds being redeemed that
7 had lower coupon rates. Generally, bondholders in the market would prefer
8 to retain bonds with higher coupon rates and therefore redeeming these bonds
9 would have resulted in much higher premiums in order to encourage
10 bondholders to voluntarily sell those back to the Company. The Company
11 aimed to efficiently repurchase a substantial amount of bonds to allow it to
12 rebalance the capital structure as outlined in the merger agreement.

13 **Q. WAS THIS APPROACH A REASONABLE AND PRUDENT WAY TO**
14 **REPURCHASE THE BONDS AND LIMIT THE COSTS THAT**
15 **WOULD BE ASSOCIATED WITH THAT PURCHASE?**

16 **A.** Yes, it was.
17

1 **Q. ORS WITNESS MR. KOLLEN SUGGESTS THAT THE COMPANY’S**
2 **COST OF DEBT SHOULD BE FIXED AT THE RATE THAT WAS IN**
3 **PLACE PRIOR TO THE RECAPITALIZATION OF THE COMPANY**
4 **TO COMPLY WITH THE MERGER COMMITMENTS. IS THIS AN**
5 **APPROPRIATE RECOMMENDATION?**

6 A. I do not believe that it is. First of all, it ignores the fact that the cost of
7 debt before the merger is not, in fact, the cost of debt as measured during the
8 test period. Under historical test year regulation, as I understand it, there are
9 limited grounds for departing from test period expense data, including
10 interest expense. Nothing in the record here suggests that reducing the cost
11 of debt to one that applied *in the past* represents a known and measurable
12 change to test period data needed to accurately reflect the Company’s
13 expected interest expense going forward. The opposite is the case. The
14 recommendation is without a valid factual basis.

15 Second, the Company’s current cost of debt reflects the amortization
16 of losses on reacquired debt, which includes pre-existing swap gains and
17 losses associated with the debt that was redeemed. Those swap gains and
18 losses existed, in whole or in part, prior to the redemption of the debt to which
19 they were assigned. They are not a cost of rebalancing the capital structure.

20

1 **Q. PLEASE EXPLAIN.**

2 A. When a company is planning to issue long-term debt, it may enter into
3 swaps to hedge against market swings in interest rates. Locking in an interest
4 rate in this way is an accepted financial practice.

5 From an accounting standpoint, when the swaps are settled, the swap
6 gains and losses are reflected as regulatory liabilities or assets and are
7 amortized as a reduction or increase to interest costs over the life of the issued
8 debt. In that way, these gains and losses are deemed to be a part of the overall
9 cost of the long-term debt issuances.

10 When the Company redeemed the debt necessary to rebalance the
11 capital structure, embedded amounts of swap gains and losses were
12 reclassified to a new accounting category, the category of loss on reacquired
13 debt. These amounts are now being amortized over the life of the previously
14 outstanding debt and form part of the calculation of the Company's test
15 period interest expense.

16 As a result, more than half of the loss on reacquired debt associated
17 with the rebalancing of the capital structure represents swap gains and losses
18 that were on the books prior to the merger. To accept the ORS
19 recommendation would entail the Commission disallowing costs that had
20 nothing to do with the rebalancing and were already in existence at the time
21 of the merger order.

1 **Q. MR. KOLLEN CRITICIZES THE COMPANY FOR NOT**
2 **DISCLOSING THE PLAN FOR REDEEMING DEBT DURING THE**
3 **MERGER PROCEEDINGS IN DOCKET NO. 2017-370-E. IS THIS**
4 **ASSERTION SUPPORTABLE FACTUALLY?**

5 A. No. It is not. As Mr. Kollen indicates in his testimony, financial
6 advisors were hired in January of 2019 to address these issues and formulate
7 a plan to redeem the debt. This only occurred after the merger was approved
8 by the Commission and was closed on January 1, 2019. The Company filed
9 its testimony in the merger docket in August and October of 2018, and the
10 record in the merger docket closed on November 21, 2018, when the hearings
11 in that docket ended. The costs that might be associated with recapitalizing
12 DESC's balance sheet had not been quantified at that time. The cost of
13 redeeming debt and the identification of which debt issue could be redeemed
14 at what cost was highly dependent on market conditions at the time of the
15 redemption and therefore would not have been known with certainty prior to
16 the transaction.

17 **Q. DID ORS REQUEST ANY INFORMATION ABOUT POTENTIAL**
18 **DEBT REDEMPTIONS IN ITS DISCOVERY IN DOCKET NO. 2017-**
19 **370-E?**

20 A. No. ORS did not request any information about potential debt
21 redemption in discovery in the merger docket.

1 **Q. IS THE COST OF THE 2019 DEBT REDEMPTION A COST THAT**
2 **DOMINION ENERGY, INC. AGREED TO BEAR AS A COST**
3 **“ASSOCIATED WITH THE . . . INVESTMENT” IN V.C. SUMMER**
4 **UNITS 2 & 3 AS MR. KOLLEN STATES, QUOTING ORDER NO.**
5 **2018-804(A) (p. 58)?**

6 A. No. The merger order, Order No. 2018-804(A), very carefully listed
7 the items that Dominion Energy, Inc. agreed would be listed ‘below the line’
8 and excluded from future rate recovery. These costs included the cost of
9 acquiring the 540 MW Columbia Energy Center combined cycle natural gas
10 unit, any goodwill merger premium or payment made by Dominion Energy,
11 Inc. to SCANA shareholders as part of the merger, and

12 those costs that are associated with funds in the
13 “Rabbi Trust” for senior management payments;
14 senior management bonus payments charged to
15 the NND Project; costs associated with the
16 Bechtel report; and consulting payments made to
17 former SCANA CEO William Timmerman . .
18 .[and] litigation expenses associated with the
19 NND Project. These expenses include the NND
20 and abandonment costs and all related claims,
21 state court lawsuits related to the BLRA and the
22 collection of revised rates, administrative and
23 law enforcement investigations and proceedings
24 related in any way to the Project that includes all
25 of the Consolidated Dockets (Docket Nos. 2017-
26 370-E, 2017-207-E, and 2017-305-E), and the
27 federal court actions filed by or against
28 SCANA/SCE&G or any of its officers or
29 directors, as well as any appeals.

30 Order No. 2018-804(A) at 97.

1 The merger conditions listed in Order No. 2018-804(A) clearly
2 specified that DESC's balance sheet would be restructured to support its
3 ability to issue debt at investment grade ratings levels, but the cost of doing
4 so was not included in the detailed list of costs that Dominion Energy, Inc.
5 was required to assume as a result of the merger. Under the terms of the
6 merger conditions and Order No. 2018-804(A), the cost of restructuring
7 DESC's balance sheet was not a 'below-the-line' cost any more than the cost
8 of satisfying other merger conditions like the cost of ensuring high-quality
9 and reliable service to customers after the merger.

10 **Q. IS THE COST OF THE 2019 DEBT REDEMPTION A COST OF**
11 **MERGER INTEGRATION AS THAT TERM IS USED IN ORDER**
12 **NO. 2018-804(A) (p. 98)?**

13 A. No. In the merger transaction, Dominion Energy, Inc. acquired the
14 controlling interest in SCE&G's parent company, SCANA, but SCE&G
15 retained its existing corporate identity and its independent debt obligations
16 while operating under the new name of DESC. SCE&G's senior secured
17 bonds remain in place under the mortgage and bond indenture issued by
18 SCE&G in 1993. SCE&G's senior secured debt has in no sense been
19 integrated or transitioned as a part of the merger.

20

1 **Q. ORS’S WITNESS MR. KOLLEN STATES THAT THE 2019 DEBT**
2 **REDEMPTION COSTS CAN BE TREATED AS A MERGER**
3 **INTEGRATION COST UNDER FERC ACCOUNTING RULES**
4 **BECAUSE THEY REPRESENT THE COST TO “REFINANCE**
5 **EXISTING OBLIGATIONS IN ORDER TO ACHIEVE**
6 **OPERATIONAL AND FINANCIAL SYNERGIES.” IS THAT THE**
7 **CASE?**

8 A. No. The FERC accounting rule related to merger integration costs
9 arising from debt transactions applies to the *refinancing* of existing debt to
10 achieve merger-related synergies, as the rule clearly states. This rule does
11 not apply here because no refinancing has occurred, nor were “operational or
12 financial synergies” of the sort mentioned above the purpose of the
13 transaction.

14 **Q. WHAT KINDS OF TRANSACTIONS WOULD THE FERC RULE**
15 **COVER?**

16 A. The FERC rule covers refinancings to achieve merger synergies.
17 These refinancings typically involve legacy debt being refinanced through a
18 new or newly available debt pool, a debt refinancing that combines the legacy
19 debt of several companies that have been merged into one, or debt that has
20 been refinanced with new terms or new credit support made possible by the
21 acquiring entity. These are the sorts of refinancing transactions that the

1 FERC rule covers. But by terms of the rule itself, the retiring of debt where
2 no refinancing has occurred would not constitute a “refinanc[ing] of existing
3 obligations in order to achieve operational and financial synergies.” The
4 FERC rule would not classify these debt retirements as a merger-related cost.

5 **RETURN ON CWIP IN RATES**

6 **Q. PLEASE RESPOND TO DOD-FEA WITNESS GARRETT’S**
7 **RECOMMENDATION THAT THE COMMISSION NOT ALLOW A**
8 **RETURN ON CWIP IN RATES.**

9 A. In multiple orders issued since the 1980s, the Commission has
10 allowed a return on CWIP in rates. It has done so consistently and for all
11 types of utilities under its jurisdiction. *See, e.g.*, Order No. 1989-588, p. 38;
12 Order No. 1993-465, pp. 39-41; Order No. 1996-15, pp. 20-21; Order No.
13 2003-38, pp. 28-30. *See also, e.g.*, Order No. 1985-1108 p. 19 (Williston
14 Telephone Co., Inc.); Order No. 1991-922 pp. 20-21 (Wild Dunes Utilities,
15 Inc.); Order No. 2010-79 (Duke Energy Carolinas, LLC); Order No. 2013-
16 661 (Duke Energy Carolinas, LLC); *see also Mid-Tex Electric Corp. v.*
17 *F.E.R.C.*, 773 F.2d 327, 334 (D.C. Cir. 1985) (reviewing the benefits of
18 allowing CWIP to be included in rate base). There are strong policy reasons
19 for allowing CWIP in rates because of the benefits it creates for customers.

20

1 **Q. HOW DO CUSTOMERS BENEFIT?**

2 A. Allowing CWIP in rates reduces the cost of construction projects that
3 are included in rate base. This reduces the costs customers must pay over the
4 lives of those assets, including the costs incurred for depreciation, taxes,
5 insurance and return on investment.

6 **Q. PLEASE EXPLAIN WHY THIS IS THE CASE.**

7 A. Construction projects require capital. The interest on that capital can
8 either be recovered during construction or capitalized as part of the ultimate
9 cost of the asset. In the utility context, Allowance for Funds Used During
10 Construction (“AFUDC”), as provided for in the FERC chart of accounts, is
11 how construction interest is capitalized as part of the cost of the asset
12 constructed.

13 Since at least 1989, this Commission has allowed the outstanding
14 balance of CWIP as verified by ORS (or the Commission staff in prior years)
15 to be reflected in rates. When the resulting rates go into effect, the Company
16 ceases to book AFUDC on the CWIP in rates. This reduces the book cost of
17 the assets, which reduces the costs that customers pay over the life of the
18 assets for depreciation, taxes, and the return on investment.

19 **Q. WHAT DOES DOD-FEA WITNESS MR. GARRETT SUGGEST?**

20 A. Mr. Garrett asks the Commission to exclude from rates CWIP
21 totaling \$332.8 million. He suggests that the Company can file another rate

1 proceeding “in two or three years” if this causes an immediate issue with
2 earnings.

3 **Q. CAN YOU PROVIDE AN EXAMPLE WHERE CUSTOMERS HAVE**
4 **BENEFITED FROM THE INCLUSION OF CWIP IN RATES?**

5 A. Yes. As mentioned above, the Commission has been allowing CWIP
6 in rates for approximately 35 years. Current customers are reaping the long-
7 term benefits of this approach. For example, the capital cost of the most
8 recent generating plant the Company built, the Jasper combined-cycle natural
9 gas generating facility, was reduced by approximately \$25 million because
10 in Order No. 2003-38 the Commission allowed the Company to place
11 approximately \$276 million of CWIP into rates while construction was still
12 ongoing. Had that CWIP treatment not been provided, the rates customers
13 pay would reflect the depreciation, taxes, and return on investment on this
14 additional amount. Over the life of the plant, the additional revenue
15 requirement is estimated to be approximately \$60 million, assuming current
16 cost of capital, tax and depreciation rates.

17 **Q. IS ALLOWING CWIP IN RATES CONSISTENT WITH COST OF**
18 **SERVICE RATEMAKING PRINCIPLES APPLIED IN SOUTH**
19 **CAROLINA?**

20 A. Yes. There is no hard and fast rule requiring only property that is used
21 and useful at the moment to be included in rate base. The Supreme Court of

1 South Carolina has specifically ruled that property held for future use can be
2 properly included in rate base. *S. Bell Tel. & Tel. Co. v. Pub. Serv. Comm'n*,
3 270 S.C. 590, 601, 244 S.E.2d 278, 284 (1978).

4 **MISCELLANEOUS**

5 **Q. SCEUC WITNESS MR. O'DONNELL SUGGESTS THAT THE**
6 **COMMISSION SHOULD ADJUST THE CAPITAL COST RIDER IN**
7 **THIS PROCEEDING. IS THIS AN APPROPRIATE**
8 **RECOMMENDATION?**

9 A. No. As clearly stated in Order No. 2018-804(A), doing so would be
10 entirely contrary to the basis on which the rider was proposed and approved
11 as a condition of Dominion Energy, Inc. agreeing to the merger. This
12 commitment was expressly relied upon by Dominion Energy, Inc. in closing
13 the merger. Adjustment to the Capital Cost Rider is also outside of the
14 matters noticed and properly before the Commission in this proceeding.

15 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

16 A. Yes, it does.